Annual Financial Report

2020 - 2021

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Texas Christian University
Annual Financial Report
For the year ended May 31, 2021

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LETTER FROM CHANCELLOR VICTOR J. BOSCHINI, JR.

In this annual report, I am pleased to highlight Texas Christian University's fiscal year 2020-2021 accomplishments as we strive to achieve our strategic goals and remain a force for the greater good. Our passionate, powerful Horned Frog community leaves me thankful and inspired, and the future fills me with hope. And I'm not the only one feeling optimistic: During a devastating time for the nation's universities, we experienced an unprecedented upward trajectory in national rankings and solid enrollment for fall 2020.

As the pandemic surged in summer 2020, we created a virtual academic year that would deliver the TCU experience as fully as possible. Through intensive training, faculty became learners, investing numerous hours to give their students a world-class education. We used our full academic schedule and every space available to provide a safe environment for students, faculty and staff to interact, collaborate and participate. Our 2020-21 Campus Readiness Task Force, along with teams across campus, worked tirelessly to ensure a safe return and the execution of our TCU Connected Campus plan to fulfill our academic mission for students. Our priority remains an effective and engaging academic learning environment, guided by the ongoing safety and well-being of our community.

Though TCU is a fiscally responsible and stable organization, even we are not immune from the operational and financial impacts that have had an ongoing effect on our decision-making. With the leadership and partnership of our Board of Trustees, we made and will continue to make appropriate adjustments to our operations that allow us to protect our students and campus community from the significant impact COVID-19 will have on higher education in the short and long term.

We are making strides in creating a more financially sustainable operating model that includes lowering cost structure, increasing financial aid and reducing annual increases in tuition. Those efforts were underway when the pandemic emerged, causing further financial and operational pressure.

The estimated effect of pandemic-related costs required budget revisions to accommodate immediate financial aid and tuition assistance for students. Other significant cost/revenue impacts include housing and dining revenue, technology and infrastructure investment, and significantly modified athletic schedules. Primary expense reductions included deferral of merit increases, voluntary pay reduction for senior executives, no hiring for open positions and departmental budget cuts.

Through this history-making time period, what has remained unchanged is our mission and the inspiring power of community that unifies Horned Frogs and inspires them to help. In May, our campus completed its final drive-thru vaccination clinic, administering 19,000 COVID-19 vaccines to Tarrant County residents over a 12-week period. More than 700 volunteers from TCU — including nursing and pre-health students and faculty, medical students, student workers and translators, police officers, and dining and professional staff — helped staff the site in collaboration with Baylor Scott & White Health.

It is with pride that I look back on these unprecedented times, because of what we accomplished, together. And it is with optimism that I look forward to what TCU can accomplish in the future.

Sustaining an Impressive Academic Community

I'm pleased to say that despite the challenges we've faced in the past 20 months, we continue to attract top academic talent in our student body, faculty and staff, and have seen strong increases in applications and enrollment.

These numbers illustrate this point: the official 2020 Horned Frog fall headcount of 11,379 represented a total gain of 355 students for a 3.2% increase over 2019. The freshman-to-sophomore retention rate went up slightly (to 91.7%) as did the transfer student retention rate (to 83.6%). This is extraordinary considering the concerns we were hearing from peers around the country of 20 percent (or worse) declines in enrollment. The Student Affairs team played a key role: offering new traditions, supporting our students' well-being and ensuring they could connect with each other safely. To ease the burden on prospective students, in spring 2020 TCU — like many U.S. universities — decided to suspend use of ACT and SAT testing for 2021 entering students.

TCU is dedicated to enrolling an academically talented, diverse student body and making TCU more accessible to students and families — while maintaining responsible enrollment growth for the future. Over the last five years, it has provided an average of nearly $137 million in financial aid to students per year. Over time, the University plans to increase financial aid by $65 million annually to better support students, compete with top universities across the country, and increase both the academic profile and diversity of incoming students.

These incoming students join an impressive academic community. Fifty-three students and 36 faculty members have participated in the Fulbright U.S. Student and Scholar programs during their time at TCU. In the 2020-2021 academic year alone, TCU received notification of four Fulbright awards, taking young scholars to Austria, Belgium, Spain and Thailand.

Dr. Teresa Abi-Nader Dahlberg, our provost and vice chancellor for Academic Affairs, continues to build her academic team. Together they focus on creating and supporting strategies to best serve our students' needs and build the academic profile and reputation of our university. New academic leadership appointments include Dr. Michael Kruger as dean for the College of Science & Engineering, the second-largest college at TCU. He previously served as dean of the College of Arts and Sciences at the University of South Dakota.

We also welcomed the Class of 2024 to the TCU and UNTHSC School of Medicine, with applications nearly tripling in less than two years. This talented, diverse cohort of students came to us from many different backgrounds, with 62 percent hailing from 17 other states. Like the medical school's first class, all 60 members of this class received the life-changing gift of a year's tuition, this time from an anonymous donor. This impressive group boasted an average 3.67 college GPA and an average MCAT score of 509 out of a possible 528.

TCU and UNTHSC School of Medicine reached yet another critical milestone on its journey to full accreditation. The Liaison Committee on Medical Education (LCME) granted it Provisional Accreditation, affirming the vision that originally inspired this innovative collaboration between TCU and UNTHSC.

In another triumph, TCU graduated more than 4,800 in a historic commencement in May 2021. Not only was it in-person, but it also featured three ceremonies honoring both 2020 and 2021 graduates in Amon G. Carter Stadium.

We celebrate these achievements as we continue to strengthen our academic reputation — not just by the numbers, but also through the accomplishments of each and every student, staff and faculty member contributing to TCU's academic stature.

Attracting the Best and Brightest

TCU continues to lead as one of the top universities in the country. The University earned three No. 4 rankings in The Princeton Review's Best Value Colleges for 2021: for Best College Dorms, Best Quality of Life and Best Schools for Internships (Private Schools). TCU was also ranked No. 5 under Best-Run Colleges. The University was named a 2020 "Great College to Work For" by The Chronicle of Higher Education, the tenth consecutive year TCU has received this recognition. And we received the exciting news that in 2020 TCU rose 17 positions in U.S. News and World Report's Best National Universities to No. 80, which is both rare and encouraging. This was a result of a concerted effort by several interdisciplinary teams to emphasize the important work of our faculty and staff. Most significantly, TCU's Peer Assessment Score — a primary factor in the ranking — rose to our highest level yet.

TCU is making significant progress with Diversity, Equity and Inclusion (DEI) efforts as well as our Race & Reconciliation Initiative (RRI). We firmly believe that comprehensively examining and addressing our history will be part of what makes us a more inclusive TCU, providing an even stronger foundation on which to build our future.

In April 2021, the TCU RRI released the First Year Survey Report following nine months of intensive exploration, uncovering documents and artifacts, and hosting public forums and town halls. Also in the spring, the inaugural class of TCU R.I.S.E. (Responsible for Inclusion and Sustaining Excellence) graduated and earned their certificates. The seven-month program, open to faculty and staff committed to inclusive excellence, received 100 applications, with a cohort of 24 selected.

Several transformational building projects continued throughout 2020-2021 as part of an ongoing investment in infrastructure. On the east campus, students are now enjoying an integrated expansion of the Neeley School of Business as well as a new Fine Arts building, and although not yet finished, the Van Cliburn Concert Hall in the new TCU Music Center is open for classroom use. On the west side, you'll notice upgrades and an expansion to Amon G. Carter Stadium's east side that include the Legends Club & Suites, and new state-of-the-art residential living facilities that encourage student connections. The most visible new facility on the central campus is The Harrison administrative building, which offers students and families a collective grouping of services now located conveniently on the edge of campus and creates a new campus entrance from West Berry Street.

In fall 2020, we opened the new Community Commons, an outdoor space transformed to encourage physically distanced activities. It includes reimagined study areas and features outdoor furniture. Located in the Commons greenspace to take advantage of a central campus location and Fort Worth's often pleasant weather, this is a space to safely gather in-person, which complements our virtual events and academic engagement efforts.

Transforming Our Future

On October 2020, we celebrated the one-year anniversary of the community launch of Lead On: A Campaign for TCU, the most ambitious philanthropic campaign in the University's nearly 150-year history with a bold $1 billion goal to drive support for TCU's people, programs and endowment. Also in October, TCU Gives Day recorded its second-highest year ever in both dollars and donors to support the campaign. By June 1, 2021, more than 48,300 donors had invested over $714 million in TCU through campaign efforts.

Recent significant gifts address one of our highest priorities in the campaign — increasing the TCU endowment for our people and our programs. In May 2020, The Bezos Family Foundation made a $3 million commitment to establish the Bezos Family Foundation Endowed Chair for Early Childhood Education and a $2 million commitment to establish the KinderFrogs Endowed Scholarship Program at Texas Christian University. The endowed chair will enable the TCU College of Education to support a distinguished teacher and scholar in the college's Early Childhood-6th Grade Education Program. The scholarship program makes it possible for students and their families with the greatest financial need to receive an education at the KinderFrogs School.

In fall 2020, the late Anne Marion and the Burnett Foundation made a $25 million gift to establish The Anne W. Marion Endowment in support of the operations of the TCU and UNTHSC School of Medicine in perpetuity. This transformational gift will provide funds to support students, faculty and programming for the medical school.

Like most universities, TCU's athletic programs have been impacted by the pandemic. Through careful consideration and countless safety protocols, we kept the dreams of our student-athletes in play. Though modified last season, this year we are competing in athletics on a national stage again and became a powerhouse in spring 2021, with six sports in the Top 10: beach volleyball, baseball, women's soccer, men's tennis, rifle and equestrian.

Competing at the highest levels in athletics is a critical ingredient of the TCU experience. Competitive athletics positively affects TCU's national reputation and builds upon our core strengths of academic achievement, scholarly pursuit and an unparalleled student experience. Because of the spirited support of our Horned Frog community — students, alumni and an ever-expanding fan base — as well as our many championship wins and location in a thriving metropolis, the University remains well-positioned for growth, success and leadership in intercollegiate athletics.

TCU continues to shine because of our connected campus of students, families, faculty, staff, alumni, fans and friends. A campus full of bright, talented students pursuing academic achievement and leadership development is the reason we exist. We have proved that the Horned Frog Family has the strength, courage and resilience to position TCU for even greater success.

Warm regards,

Victor J. Boschini, Jr.
Chancellor

DISCUSSION OF FINANCIAL RESULTS

During Fiscal Year 2021 (FY21), Texas Christian University (TCU) and the world weathered one of the most significant global health pandemic and economic crises seen in generations. The pandemic forced higher education to alter its traditional business model in order to deliver academic services and sufficient financial aid to keep students enrolled during this period. The pandemic and economic crises' effect on students and their families, required a dramatic shift in the financial outlook for TCU. As these shifts were being implemented, TCU carefully managed the financial resources. In addition, the better half of the fiscal year, Endowment investments rebounded helping to increase in net assets of $443 million from May 31, 2020 to May 31, 2021. As the world, and TCU, return to a "new normal", TCU will continue to practice disciplined financial management and optimize resources to ensure financial sustainability.

UNIVERSITY HIGHLIGHTS

Enrollment trends. TCU was actively recruiting the Fall 2020 entering class when the worldwide "lockdown" began. Even with the uncertainty of the pandemic, the Admissions team worked diligently to promote the family atmosphere of TCU, and was able to secure an entering class of 2,287 students. This is an increase from the Fall 2019-entering class of 2,159, and a testament to the solid demand for education at TCU. The first-year class size for Fall 2020 was in line with a previously announced strategic goal of increasing the undergraduate population to approximately 10,500 students.

In addition to the solid undergraduate demand for a TCU education, graduate enrollment remained relatively steady at 1,556 for the Fall semester 2020 compared to 1,490 for the Fall semester 2019, and remained consistent with the stated goal of approximately 1,500 graduate students. Further, the University had a total of 119 medical school students for the Summer 2020 session after welcoming the inaugural class of 60 medical school students in the Summer of 2019, reaching the halfway mark of anticipated total enrollment of 240 students by the Summer of 2022.

Generous donor support. The University continues to benefit from the generous support of its many loyal donors. During FY21, despite the unprecedented impact of COVID-19, TCU secured $87.1 million in gifts, pledges and pledge payments, as compared to $125.3 million in FY20. Cash receipts totaled $64.2 million including payments on pledges to *The Campaign for TCU*, a comprehensive capital campaign completed in May 2012. FY21 Annual Fund gifts as reported by University Advancement totaled $6.8 million. The number of undergraduate alumni donors was 6,056 in FY21. Alumni participation continues to compare favorably to peer institutions and reflects the strong financial support of our alumni. The total number of donors including alumni, parents, friends, corporations, and foundations was 9,851 for FY21.

TCU began a new multi-year fund-raising effort in support of the University's strategic planning goals on June 1, 2012, and publicly launched *Lead On: A Campaign for TCU* in October 2019. The campaign is focused on scholarships, academic programs, and faculty support with emphasis on significantly increasing the University's Endowment. Gifts and pledges to the new campaign totaled $714.1 million through May 31, 2021, of which $243.0 million was designated to the TCU Endowment and the remainder designated for facilities projects, annually expendable funds, and general University support. The campaign has seen broad based support with 48,311 total donors contributing through the end of FY21.

STATEMENT OF FINANCIAL POSITION

The *Statement of Financial Position* presents the assets, liabilities, and net assets of the University on May 31, the close of the fiscal year. The net assets are classified as without donor restrictions or with donor restrictions depending upon whether any restrictions were placed upon the funds at the time they were received by the University. While the Board of Trustees may designate funds for specific purposes, only donors or other external third parties may impose the restrictions as they are defined in the financial statements. Gifted Funds to the University with perpetual donor restrictions are typically held in the Endowment. The unspent earnings or market appreciation arising from such restricted gifts is combined with other expendable funds and classified as donor restricted with time or purpose in accordance with donor instructions. Funds classified as donor restricted with time or purpose may be spent only upon the occurrence of a specified event or after a defined period of time, or may be spent only for those purposes specified by the donor. Funds without donor restrictions are available for the general support of the University in accordance with policies established by the Board of Trustees.

The *Statement of Financial Position* reflects an increase in the University's total net assets for FY21. University net assets increased $443 million in FY21, primarily due to increases in the market value of investments lifting the University's balance sheet to end the year at $3.9 billion in total assets. Total University liabilities decreased $3 million to $1.1 billion.

Cash

The University closely forecasts and monitors cash flows and liquidity in order to meet operating and contractual commitments. A majority of the University's operating and working capital is held in short-duration mutual funds. Other working capital investments include Treasury backed money market funds. Funds are rated Aa3 by Moody's Investors Service. At year-end, the University's cash balance was $32 million. The University's cash and short-term investments of its working capital outside of the Endowment totaled $362.8 million at year-end, of which a portion was encumbered to make final payments on completed capital projects. During FY21, the University used cash to purchase and construct capitalized assets totaling $40.8 million.

Contributions Receivable

Gross contributions receivables resulting from binding donor pledges relating to the renovation of the Amon G. Carter Stadium, Ed and Rae Schollmaier Arena (formerly Daniel-Meyer Coliseum), Charlie and Marie Lupton Baseball Stadium, M.J. Neeley School of Business, Football Recruiting Area, Dee J. Kelly Alumni & Visitors Center, TCU Music Center, and Amon G. Carter Stadium expansion totaled $45.7 million as of May 31, 2021. The net value of those contribution receivables was $43.3 million as of May 31, 2021, as determined by discounting future cash flows.

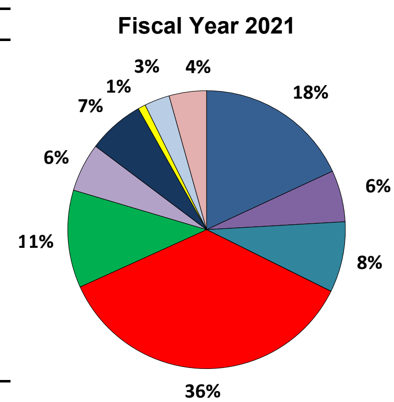
Investments

The investments line on the *Statement of Financial Position* primarily consists of Endowment funds, as well as short-term investments of working capital. Investments increased by a net $448.6 million after making the annual Endowment payout. In the same period, annual payout from the Endowment increased to $73.4 million, as discussed further in the *Statement of Activities* section under Investment Returns Distributed for Operations.

Investments include short-term investments, equities, fixed income, real estate, and mineral interests as well as alternative investments. The alternative investments, including equity, debt, and real estate partnerships and hedge funds, represent 53.3% of total investments at year-end.

Asset Allocation

(in thousands)	May 31, 2021	2020
Short-term investments	$ 429,573	$ 364,254
Domestic equity securities	$ 142,474	$ 79,222
International equity securities	$ 195,310	$ 142,886
Corporate bonds and asset-backed securities	$ 204	$ 40
Equity partnerships	$ 852,917	$ 495,470
Debt partnerships	$ 269,790	$ 253,451
Real estate partnerships	$ 134,227	$ 109,220
Hedge funds	$ 156,098	$ 286,331
Real estate	$ 21,040	$ 21,098
Mineral interests	$ 69,900	$ 86,354
Investments held in trust by others	$ 103,296	$ 87,912
Total Investments	$ 2,374,829	$ 1,926,238



Endowment

The University's Endowment funds provide enduring support for the mission of the University by infusing a substantial and reliable flow of funds into the operating budget. At May 31, 2021, the Endowment totaled $1.9 billion of the total investments balance and represented approximately 71.5% of the University's net assets. Contributions, total investment return, and other transfers increased the Endowment by $491 million, and Endowment payouts reduced the Endowment by $73.4 million for a net increase of $417.7 million or 26.4% from the prior year. Payout to operations from the Endowment continues to be a substantial source of operating revenue for the University, covering 13.3% and 12.5% of expenses in FY21 and FY20, respectively.

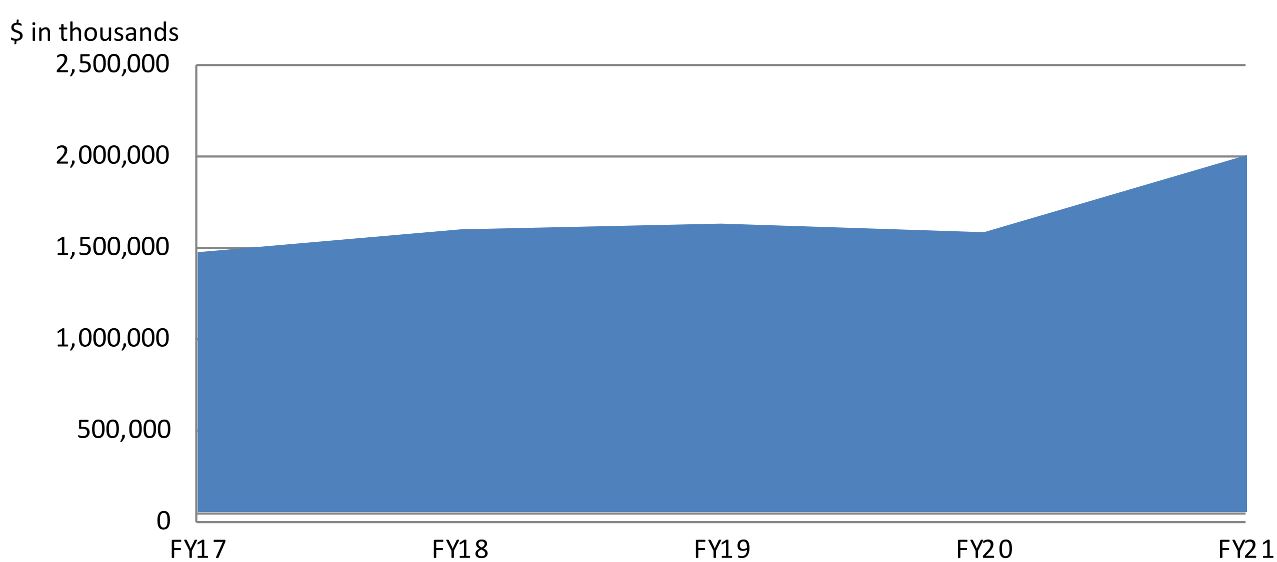
The Endowment is a commingled investment pool composed of hundreds of individual funds embodying a variety of designated and undesignated purposes. These funds fulfill donor wishes by financing designated programs until either a time or purpose restriction is satisfied or in perpetuity. Endowment funds with donor restrictions for time or purpose comprise 26.0% of the University's Endowment net assets, and an additional 25.5% of those net assets are for funds with perpetual donor restrictions. The remainder of the Endowment is primarily comprised of gifts and capital gains without donor restrictions, acting as Quasi-Endowment, which combine to provide a margin of excellence over and above that which tuition supports.

The financial goal for the Endowment is to preserve the inflation-adjusted purchasing power over the long term and provide a reliable, growing stream of income to support the University's mission fulfilled by its people and programs. Therefore, the University must invest the Endowment in such a way to achieve a total return which is the actual income plus appreciation that is at least equal to inflation plus actual Endowment payout over the long term.

Three key decisions govern the management of the Endowment: the target rate of return; asset allocation among various investment categories in order to achieve the target rate of return; and the annual rate of Endowment payout (the Endowment spending limit). In FY21, approximately 95.0% of the TCU Endowment was allocated to a diverse array of marketable and nonmarketable investment strategies to achieve an expected annual average total return that exceeds inflation by 5.0% or more over the long term. This target return is expected, to maintain the purchasing power of the Endowment and support an annual payout rate of approximately 5.0% of the average market value over a twelve-quarter period ending December 31 of the preceding year. Using the Board of Trustees' approved spending limit, the Endowment spending rate was maintained at 5.0% for the fiscal years ended May 31, 2021 and 2020.

TCU's Endowment ranked nationally among the top 69 colleges and universities as of the June 30, 2021 NACUBO-Commonfund Study of Endowments. This remarkable achievement is due to the generous support of generations of TCU alumni and friends and to the fiduciary care exercised by the Board of Trustees.

University Endowment by Year



Property and Equipment

During the pandemic, the University focused on completing major capital projects that had started prior to the pandemic. During FY21, the University invested $40.8 million in capital projects, bringing total property and equipment before accumulated depreciation to $2.1 billion.

During FY21, there were primarily two significant capital projects that were completed, both associated with the University's strategic plan *Vision in Action*, which incorporates a number of people and program initiatives as well as a significant commitment to enhance the University's infrastructure and facilities:

- The Harrison, the University's administrative services building opened in July 2020. Various academic, student affairs, and administrative functions reside in this new facility.

- The TCU Music Center opened in June 2021. TCU Music Center is part of the Creative Commons on the east side of the TCU campus. The Center houses band and orchestra rehearsal spaces, as well as instructional facilities, faculty studios, and practice rooms. At the heart of the facility is the intimate and acoustically perfect Van Cliburn Concert Hall at TCU. The 700-seat-state-of-the-art hall hosts outstanding musical performances enjoyed by the TCU student body and the entire Fort Worth community.

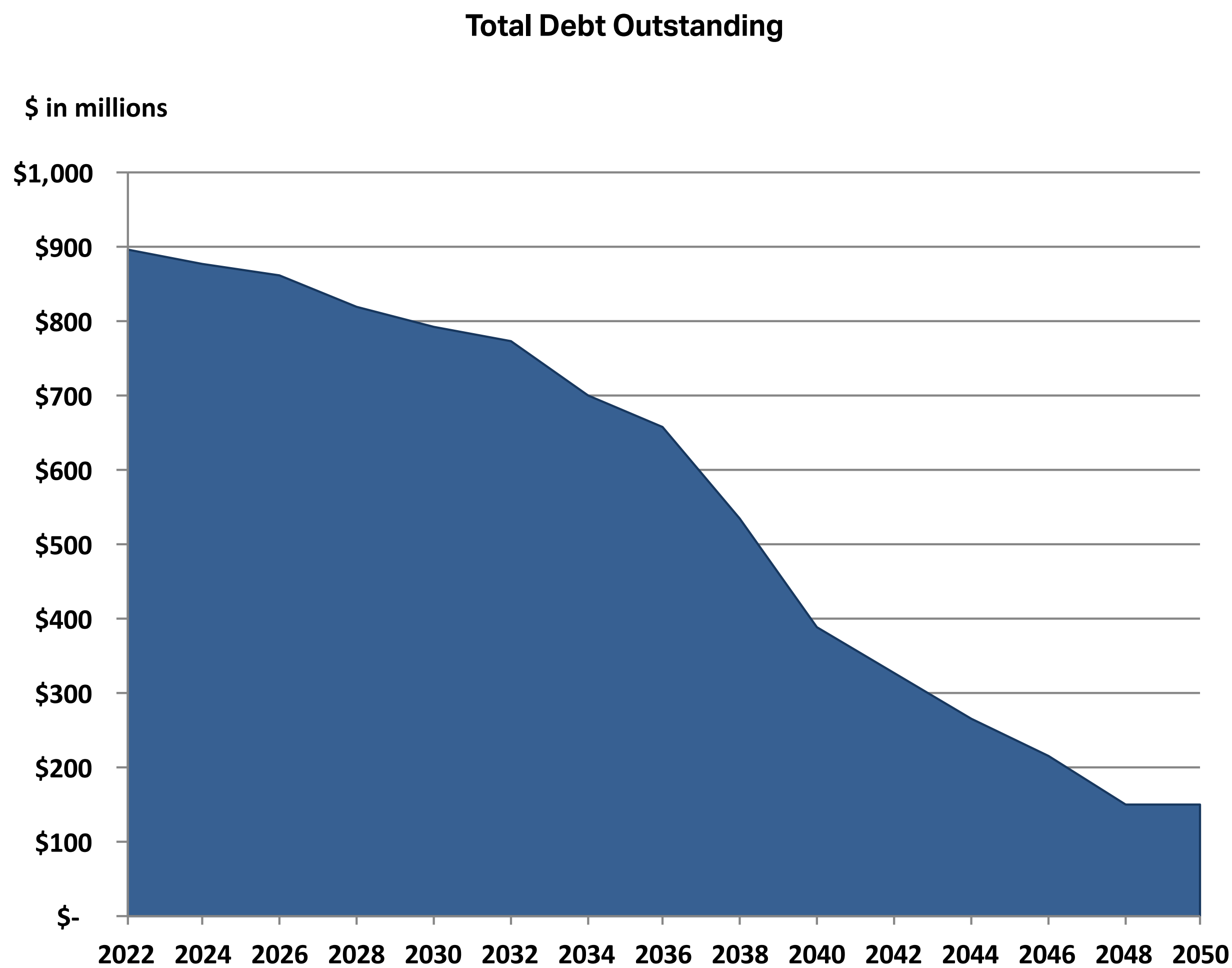
Bonds and Notes Payable

Over time, TCU has funded building projects through a combination of gifts, working capital reserves, and debt in the form of tax-exempt bonds and taxable notes. In FY21, total debt decreased from $893.7 million to $885.8 million due to scheduled principal payments on existing outstanding debt. Total debt levels remain appropriately balanced against assets of the University and donor pledges. The maturity schedule calls for retirement of most existing debt over the next 5 to 25 years with the exception of $150 million that was issued in May 2020 to be held in reserve to manage liquidity needs during the worldwide COVID-19 pandemic. The University has not used any of the proceeds of the $150 million reserve funds.

The management of the debt portfolio is ongoing and in conjunction with and the University's reporting requirements to Moody's Investors Service and other rating agencies remain in compliance. As of May 31, 2021, the University's credit rating remained unchanged with Moody's Investors Service rating TCU's long-term bonds "Aa3", and Fitch Ratings rating the bonds "AA-", which represent strong ratings by both firms (see Total Debt Outstanding chart on next page).

Right of Use Liabilities

The University implemented accounting standard ASC 842 in FY21 which improves information reported in the financial statements containing leasing transactions. Implementation of ASC 842 resulted in a Right of Use liability of $21.5 million. The University leases student housing apartments, parking, retail/office space, equestrian facilities, and dedicated ethernet under operating leases expiring at various dates through 2030, which are primarily considered operating right-of-use assets under ASC 842. Variable lease cost includes student housing apartments for which the University collects fees from students for use and office space leases. The lease for student housing apartments represents substantially all of the variable lease liability.



Net Assets Without Donor Restrictions

University net assets without donor restrictions increased $204.3 million to end the year at over $1.7 billion. Net assets without donor restrictions from operating activities decreased $4.1 million, and net assets without donor restrictions from non-operating activities increased $208.4 million. The net asset increases from non-operating activities included a $1.3 million loss from actuarial changes in postretirement benefits, as well as $24.9 million in capital contributions released from restrictions, which had no effect on total net assets and was only a reclassification from assets with donor restrictions to assets without donor restrictions. In addition, a $173.6 million gain from investment returns, net of operating distributions and a $11.1 million gain on the valuation of interest rate swaps were posted.

Net Assets With Donor Restrictions

Net assets with donor restrictions related to time or purpose increased $199.4 million to $555.2 million at year-end, and net assets with perpetual donor restrictions increased $39.7 million to $511.5 million as of May 31, 2021. Therefore, total net assets with donor restrictions increased $239.1 million to end the year at $1.1 billion.

The major contributing factors to this increase were a non-operating gain of $217.3 million related to investment returns, net of operating distributions; $33.0 million related to capital and other contributions. The increases were partially offset by a reclassification of $40.5 million in operating revenue released from restriction and by non-operating activity of $48.8 million related to capital and other contributions.

Unlike the net assets with donor restrictions related to time or purpose, which can be reclassed to net assets without donor restrictions upon the restricting constraint being completed or resolved, the principal value of the assets designated as with perpetual donor restrictions must be invested in perpetuity to generate income to be used only for the purposes designated by donors.

STATEMENT OF ACTIVITIES

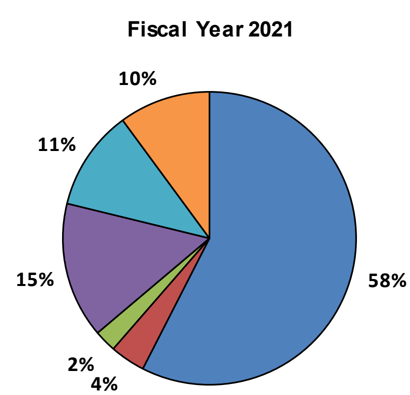
The Statement of Activities shows the revenues earned and the expenses incurred during FY21 in support of University operations, as well as the results of non-operating activity, primarily related to investment activity. The University ended FY21 with a $68.2 million increase in net assets from operating activities before depreciation expense of $75.7 million and a decrease in net assets of $7.5 million after depreciation expense. This compares to a $68.0 million increase in net assets from operating activities before depreciation expense of $69.5 million in FY20 with an overall deficit of $1.2 million.

FY21 operating revenues decreased 3.1% compared to an decrease in expenses of 1.9% during the same period. The decrease in revenues and expenses is primarily due to the worldwide COVID-19 pandemic. Details of the effects of the pandemic will be discussed in the following sections of this report.

The investment returns distributed for operations shown within the operating revenues section of the statement reflect the annual

Current Operating Revenues

(in thousands)	May 31, 2021		May 31, 2020	
Net tuition and fees	$	313,561	$	315,198
Private gifts and grants	$	21,124	$	30,422
Government grants and contracts	$	13,274	$	10,821
Investment returns distributed for operations	$	81,741	$	77,278
Auxiliary activities	$	60,508	$	57,348
Other income	$	54,979	$	71,423
Total Operating Revenues	$	545,187	$	562,490



Endowment payout, in addition to interest on short-term investments and invested bond proceeds. There are no transactions on the Statement of Activities titled "net assets if released from restrictions" that represent reclassifications of assets from the "with donor restrictions" category to the without donor restrictions category because the requisite conditions were satisfied. These reclassifications have no impact on total revenue.

Operating expenses are displayed by function in the Statement of Activities. All operating expenses are classified as without donor restrictions because the assets were released from donor-imposed restrictions, if any, when the expenses satisfying the restricted purpose were incurred. Depreciation expense of $75.5 million, facility maintenance expense of $43.6 million, and interest expense of $24.8 million were allocated among the functional categories in proportion to the utilization of the underlying assets by each function.

Non-operating activities include gifts to the Endowment or other capital for non-operating purposes such as new buildings. Investment returns, net of the amount distributed for operations, as well as actuarial changes in retiree benefit plans, are also accounted for in this section. The University's non-operating increase in net assets of $450.9 million is discussed in more detail in the Statement of Financial Position section.

Changes in Net Assets are primarily due to capital gifts and to realized and unrealized market gains or losses that impact the carrying value of the Endowment but do not directly impact the operating budget. TCU adopts a balanced operating budget each year. While TCU adopts a balanced budget each year, the budget is prepared using conservative revenue projections and a provision is made in support of certain strategic initiatives within *Vision in Action*. This conservative approach to budgeting allows the University to generate a prudent increase in net assets before depreciation expense which is dedicated in part to providing an adequate contingent Reserves and, in concert with donor support, continued fulfillment of the capital projects associated with the strategic plan that otherwise would not be possible.

OPERATING REVENUES

FY21 operating revenues were $545.2 million, reflecting a decrease of 3.1% over FY20. The components of the University's operating revenues are shown in the table and chart are also discussed.

Net Tuition and Fees

Tuition and fees are shown net of financial aid and represent 57.5% of University operating revenues, which is a net decrease of .5% to $313.6 million in FY21 as compared to the prior year. The decrease in Net Tuition and Fees is the result of additional financial aid provided to students for classes that had to be shifted to an online format and additional financial aid to assist with student needs due to the worldwide COVID-19 pandemic. The additional discounts totaled $29 million for FY21.

TCU charges a single tuition rate for full-time students taking 12 to 18 credits, rather than charging on a per-credit-hour-basis. Annual tuition at TCU was $51,570 in FY21. Despite the challenges created as a result of the COVID-19 pandemic, TCU supported the strategic goal of increasing the undergraduate population, undergraduate enrollment increased from 9,477 students as of the fall semester 2019 to 9,704 students as of the fall semester 2020.

Financial aid has increased steadily at TCU as a function of enrollment and tuition increases. In addition, TCU continues to steadily and intentionally increase its financial aid budget to both recruit and retain outstanding students. Financial aid increased $52.8 million or 26.5% in FY21 to $252.4 million, this includes the $29.0 million in additional COVID-19 financial aid awards noted above. Without considering the online discounts, financial aid increased $23.8 million from FY20. This reflects TCU's continued dedication to providing students with additional financial aid. The tuition discount, defined as financial aid attributable to institutional funds as a percentage of tuition revenue, was 44.6% for FY21, further demonstrating a commitment to provide a significant allocation of funds to scholarships and other sources of financial aid. This discount rate is an increase from the FY20 discount rate of 38.8%.

Private Gifts and Grants and Government Grants and Contracts

Current year operating private gifts and grants, represent 3.9% of total operating revenues and decreased $9.3 million to $21.1 million in FY21. The decrease is primarily due to the worldwide COVID-19 pandemic. Government grants and contracts make up 2.4% of the University's operating revenues and increased $2.5 million to $13.3 million in FY21 due to increases in various federal and state grants.

Investment Returns Distributed for Operations

Investment returns distributed for operations represent 15.0% of operating revenues and increased from the prior year to $81.7 million. Operating investment returns reflect the annual Endowment payout, or the amount budgeted to be spent in support of operations for the year, in addition to interest on short-term investments and the interest earned from $150 million in invested taxable bond proceeds. The Endowment payout in FY21 was 4.2% of the Endowment value at the beginning of the fiscal year. The University's Endowment is discussed further in the *Statement of Financial Position* section.

Auxiliary Activities

Auxiliary income represents 11.1% of operating revenues and increased $3.2 million from the prior year, ending the year with $60.5 million in revenue. These revenues are composed primarily of student housing and dining. In FY20, COVID-19 credits of $7.5 million and $3.5 million, respectively, were applied to students' accounts for the spring semester as a result of the campus closure at the outset of the pandemic. This contributed to the slight increase in auxiliary income in FY21 from $57.4 million in FY20.

Other Income

Other income represents 10.1% of operating revenues and decreased $16.4 million from the prior year, ending the year with $55.0 million in revenue. These revenues are composed mostly of athletics revenues, which primarily accounted for the decreases in other income due to the deferral of football. Game day revenue and merchandise sales account for the majority of the loss due to reduced athletic schedules and limited capacity at athletic events related to COVID-19.

Net Assets Released from Restrictions

Net assets released from restrictions represent reclassifications of assets from the with donor restrictions category to the without donor restrictions category because the requisite conditions were satisfied. These reclassifications have no impact on total revenue.

OPERATING EXPENSES

Total expenses decreased $11.0 million, or 1.9%, to $552.7 million in FY21. Operating expenses are presented in the financial statements by functional area. All expenses are classified as without donor restrictions because the assets were released from donor-imposed restrictions, if any, when the expenses satisfying the restricted purpose were incurred. The components of the University's operating expenses by function are shown in the table and chart below.

Instruction

Instruction represents 37.7% of total operating expenses and decreased slightly to $208.2 million in FY21. Although this functional category did not significantly fluctuate in total from FY20 to FY21, faculty pay, summer school pay, and School of Medicine in-kind expenses for the preceptors increased. These expenses were offset by a reduction in professional and consultant fees as well as in travel-related expenses due to curtailments related to COVID-19 and in-kind revenue attributed to the volunteer support from the School of Medicine preceptors.

Student Services

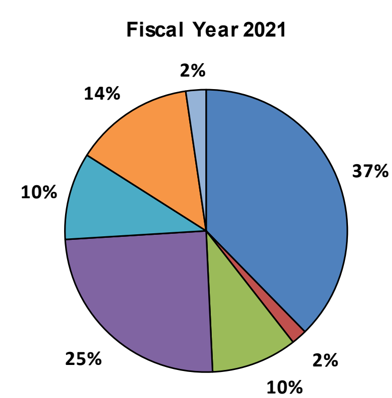
Student services includes expenses for admissions, student activities, cultural events and intramural athletics, student organizations and intercollegiate athletics. Student services represent 24.8% of total operating expenses and decreased by 6.2% to $136.9 million in FY21. Student services expenses are included primarily relate to athletics, which had decreased significantly due to limited game day activity and reduced athletic schedules.

Auxiliary Activities

Auxiliary activities represent 13.7% of total operating expenses and increased by 2.9% to $75.6 million in FY21. Auxiliary expenses are composed primarily of student housing and

Current Operating Expenses

(in thousands)	May 31, 2021		2020	
Instruction	$	208,175	$	208,802
Research	$	9,835	$	7,377
Academic support	$	54,298	$	60,266
Student services	$	136,851	$	145,894
Institutional support	$	55,150	$	52,609
Auxiliary activities	$	75,590	$	73,466
Fund-raising	$	12,795	$	15,259
Total Operating Expenses	$	552,694	$	563,673

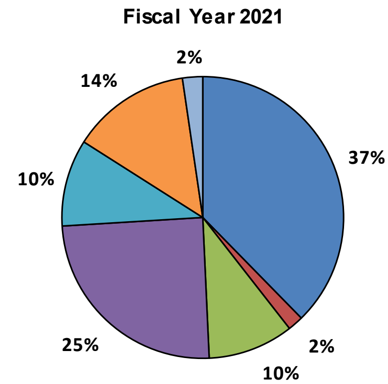


dining services. The increase is primarily attributable to the quarantine rooms leased from local hotels and apartment complexes in FY21 to accommodate COVID-19 positive students.

Although operating expenses are presented in the *Statement of Activities* by functional area, the following summarizes the composition of operating expenses by natural classification.

Current Operating Expenses by Natural Classification

(in thousands)	May 31, 2021	May 31, 2020
Instruction	$ 208,175	$ 208,802
Research	$ 9,835	$ 7,377
Academic support	$ 54,298	$ 60,266
Student services	$ 136,851	$ 145,894
Institutional support	$ 55,150	$ 52,609
Auxiliary activities	$ 75,590	$ 73,466
Fund-raising	$ 12,795	$ 15,259
Total Operating Expenses	$ 552,694	$ 563,673



FINANCIAL HIGHLIGHTS

	2021	2020	2019	2018	2017
Assets and Liabilities (000s)					
Total Assets	$3,936,232	$3,496,001	$3,318,639	$3,200,358	$2,930,566
Total Plant Assets Book Value	$2,119,149	$2,082,306	$1,924,843	$1,743,879	$1,579,597
Investments	$2,374,829	$1,926,238	$1,849,263	$1,892,568	$1,708,225
Investments Per Student	209	175	169	180	164
Bonds and Notes Payable	$885,808	$893,736	$668,499	$607,639	$522,292
Income (000s)					
Gross Tuition and Fees	$565,976	$514,798	$489,157	$448,366	$420,428
Financial Aid	$252,415	$199,600	$188,021	$165,150	$154,136
Investment Returns	$81,741	$77,278	$77,040	$71,671	$67,495
Operating Budget (000s)					
Total Revenue	$546,200	$518,400	$544,119	$495,200	$480,500
Total Expenditures	$546,200	$518,400	$544,119	$495,200	$480,500
Miscellaneous					
Student Enrollment	11,379	11,024	10,918	10,489	10,394
Number of Faculty (FTE)	808	809	801	775	759
Tuition and Fees	$51,660	$49,250	$46,950	$44,760	$42,670

FUTURE MOMENTUM

Even during these uncertain times, the University continues to experience momentum as evidenced by the sustained strong demand for a TCU education, a transformed physical campus, and the progress of the School of Medicine. In order to ensure that TCU continues the momentum of continued growth in the Endowment, student academic ability to maintain a student faculty ratio of 14:1, competitive athletic presence and quality physical infrastructure, the Board of Trustees developed the *Vision in Action:* Lead On initiative in the Spring of 2017. Lead On is the third phase of TCU's transformational strategic *Vision in Action* planning process, which began in 2003 and follows the *Vision in Action:* Academy of Tomorrow phase. *Vision in Action:* Lead On focuses on four strategic areas—academic profile and reputation; Endowment; TCU experience and campus culture; and workforce.

The additional budget for financial aid provided in FY21 due to COVID-19 will become permanent in FY22 and beyond. The financial aid will be deployed strategically by the University to attract an increasingly higher academic and diverse student population. These financial aid strategies, in concert with donor contributions to the Endowment for scholarships, are in support of the goal to improve TCU's academic profile and reputation by making TCU more accessible to talented students throughout the country.

Achieving these goals will require significant financial resources, and through careful financial stewardship, the University is well-positioned to continue the pursuit for TCU's educational mission. The University's liquidity position is strong and continues to improve through positive operating cash flows. Despite increases in debt in recent years, total debt levels remain appropriately balanced against assets of the University, donor pledges, and a maturity schedule that calls for retirement of most of the outstanding balances over the next 5 to 25 years. Cash and investment balances remain strong, and operating reserves are available to continue investing in strategic initiatives.

With the enduring support of students, alumni, friends, faculty, and staff, the University will continue to shape and transform the leaders who, tomorrow, will shape and transform our world.

Financial Statements and Report of Independent Certified Public Accountants

Texas Christian University

May 31, 2021 and 2020

Texas Christian University

FINANCIAL STATEMENTS

Years ended May 31, 2021 and 2020

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GRANT THORNTON LLP
1717 Main Street, Suite 1800
Dallas, TX 75201-4667

D +1 214 561 2300
F +1 214 567 2370

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Texas Christian University

We have audited the accompanying financial statements of Texas Christian University (the "University"), which comprise the statement of financial position as of May 31, 2021, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Christian University as of May 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on 2020 summarized comparative information
We have previously audited the University's 2020 financial statements (not presented here in), and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 22, 2020. In our opinion, the accompanying summarized comparative information as of and for the year ended May 31, 2020 is consistent, in all material aspects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

Dallas, Texas
September 23, 2021

Texas Christian University

STATEMENTS OF FINANCIAL POSITION

May 31, 2021 and 2020
(in thousands)

	2021	2020
ASSETS		
Cash	$ 32,065	$ 16,278
Accounts receivable and accrued income, net	26,178	28,026
Contributions receivable, net	43,274	49,999
Investments	2,374,829	1,926,238
Property and equipment, net	1,436,450	1,470,043
Other assets, net	23,436	5,417
Total assets	$ 3,936,232	$ 3,496,001
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and other accrued liabilities	$ 86,112	$ 93,566
Refundable government student loans	5,779	4,748
Funds held in fiduciary capacity, net	15,479	12,302
Deferred income	22,398	26,350
Accrued postretirement benefits	69,051	67,406
Interest rate swaps	30,338	41,464
Bonds and notes payble, net	885,808	893,736
Right of use liabilities	21,487	-
Total liabilities	1,136,452	1,139,572
Net assets		
Without donor restrictions	1,733,050	1,528,774
With donor restrictions		
Time or purpose	555,191	355,833
Perpetual	511,539	471,822
Total with donor restrictions	1,066,730	827,655
Total net assets	2,799,780	2,356,429
Total liabilities and net assets	$ 3,936,232	$ 3,496,001

Texas Christian University

STATEMENT OF ACTIVITIES

Year ended May 31, 2021
(with comparative totals for 2020)
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	2021	2020
Operating revenues				
Net tuition and fees	$ 313,561	$ -	$ 313,561	$ 315,198
Private gifts and grants	16,994	4,130	21,124	30,422
Government grants and contracts	13,274	-	13,274	10,821
Investment returns distributed for operations	48,764	32,977	81,741	77,278
Auxiliary activities	60,508	-	60,508	57,348
Other income	54,979	-	54,979	71,423
Net assets released from restrictions	40,511	(40,511)	-	-
Total operating revenues	548,591	(3,404)	545,187	562,490
Operating expenses				
Instruction	208,175	-	208,175	208,802
Research	9,835	-	9,835	7,377
Academic support	54,298	-	54,298	60,266
Student services	136,851	-	136,851	145,894
Institutional support	55,150	-	55,150	52,609
Auxiliary activities	75,590	-	75,590	73,466
Fund-raising	12,795	-	12,795	15,259
Total operating expenses	552,694	-	552,694	563,673
Change in net assets from operating activities	(4,103)	(3,404)	(7,507)	(1,183)
Non-operating activities				
Capital and other contributions	-	48,762	48,762	33,875
Capital contributions released from restrictions	24,933	(24,933)	-	-
Postretirement benefit actuarial changes	(1,278)	-	(1,278)	1,977
Investment returns, net of operating distributions above	173,599	217,311	390,910	(71,253)
Gain (loss) on interest rate swaps	11,126	-	11,126	(12,693)
Other	(1)	1,339	1,338	1,422
Change in net assets from non-operating activities	208,379	242,479	450,858	(46,672)
Change in net assets	204,276	239,075	443,351	(47,855)
Net assets at beginning of year	1,528,774	827,655	2,356,429	2,404,284
Net assets at end of year	$ 1,733,050	$ 1,066,730	$ 2,799,780	$ 2,356,429

Texas Christian University

STATEMENTS OF CASH FLOWS

May 31, 2021 and 2020
(in thousands)

Texas Christian University

STATEMENTS OF CASH FLOWS

Years ended May 31,
(in thousands)

	2021	2020
Operating activities:		
Change in net assets	$ 443,351	$ (47,855)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	75,657	69,680
Provision for bad debts	988	3,588
(Gain)/loss on disposal or sale of property and equipment	(17)	(357)
Proceeds from capital and other contributions	(48,761)	(33,925)
Investment returns, net of operating distributions	(390,910)	71,253
Gain on interest rate swaps	(11,126)	12,693
Loss on debt refunding	-	6,954
Proceeds from sale of contributed securities for operations	3,982	419
Non-cash contributions of property and equipment		(155)
Net change in charitable gift annuities	(1,339)	(1,422)
Net change in contributions receivable restricted for long-term purposes	6,725	2,177
Changes in operating assets and liabilities:		
Accounts receivable and accrued income	860	(7,085)
Other assets	(18,061)	169
Accounts payable and other accrued liabilities	(7,041)	(14,104)
Refundable government student loans	1,031	(1,378)
Funds held in fiduciary capacity	3,177	(222)
Deferred income	(3,952)	(7,395)
Accrued postretirement benefits	1,645	(235)
Right of use liabilities - operating	19,932	-
Net cash provided by operating activities	76,141	52,800
Investing activities:		
Purchases of property and equipment	(40,800)	(152,300)
Proceeds from sale of property and equipment	46	419
Purchases of investments	(882,152)	(1,383,230)
Proceeds from sales and maturities of investments	811,161	1,223,722
Net cash used in investing activities	(111,745)	(311,389)
Financing activities:		
Proceeds from capital and other contributions:		
Endowment	26,241	19,887
Property and equipment	22,520	14,038
Payments on bonds payable	(8,079)	(238,586)
Redemption of interest rate swap	-	(5,598)
Proceeds from issuance of bonds and notes	-	459,386
Payments of Finance lease obligation	(1,514)	-
Proceeds from sale of contributed securities for long-term purposes	9,329	10,862
Payment for debt issue costs	-	(2,604)
Net change in charitable gift annuities	1,339	1,422
Right of use liabilities - financing	1,555	-
Net cash provided by financing activities	51,391	258,807
NET INCREASE IN CASH	15,787	218
Cash at beginning of year	16,278	16,060
Cash at end of year	$ 32,065	$ 16,278
Supplemental non-cash disclosure:		
Property and equipment included in accounts payable	$ 1,101	$ 16,219

The accompanying notes are an integral part of these financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Texas Christian University (the University or TCU) is a private, non-profit institution of higher education, which includes ten major academic units (AddRan College of Liberal Arts, the College of Science and Engineering, the Neeley School of Business, the College of Education, the College of Fine Arts, the Bob Schieffer College of Communication, the Harris College of Nursing and Health Sciences, the John V. Roach Honors College, the School of Interdisciplinary Studies, and the TCU and UNT Health Science Center School of Medicine) whose accounts are included in the accompanying financial statements.

Basis of Financial Reporting

The accompanying financial statements represent the financial position and financial activities of the University, as a whole, and present transactions according to the existence or absence of donor-imposed restrictions. Accordingly, transactions and balances are classified into two categories: net assets without donor restrictions and net assets with donor restrictions.

Net assets with donor restrictions are subject to donor-imposed or legal restrictions that must be met either by actions of the University and/or the passage of time. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the University, including donor restrictions which stipulate that assets be held in perpetuity.

Cash

For the purpose of reporting cash flows in the statements of cash flows, cash is comprised of cash on hand and in banks. The University places its cash with high quality financial institutions and these cash balances, at times, may exceed federally insured limits. The University has not experienced any losses on such accounts.

Accounts Receivable and Accrued Income

Accounts receivable are shown net of an allowance for doubtful accounts of approximately $7.2 million at May 31, 2021 and 2020. The University estimates the allowance for doubtful accounts based on historical collections, current economic conditions, and aging of accounts receivable. Accounts receivable are written off against the allowance based on a review of specific accounts. Gross accounts receivable on the statements of financial position as of May 31 include:

	2021	2020
	(in thousands)	
Student accounts receivable	$ 10,101	$ 9,768
Student loans receivable	4,985	5,334
Accrued income	11,724	14,775
Other receivables	6,568	5,349
Total	$ 33,378	$ 35,226

Certain restricted gifts, grants, investment income, and other restricted resources are accounted for as revenue with donor restrictions. Upon the lapse of donor-imposed restrictions or expenditures for the intended purpose, these assets are reclassified to net assets without donor restrictions, with expenditures reported as operating expenses or non-operating capital contributions released from restrictions. Contributions received with donor restrictions which are satisfied in the same reporting period are accounted for as described above and are included in net assets released from restrictions and in capital contributions released from restrictions in the accompanying statement of activities.

Revenue from tuition and fees is recognized as earned over the related academic term within the fiscal year and is reported net of student financial aid (principally scholarships) of approximately $252.4 million and $199.6 million in 2021 and 2020, respectively, and provision for bad debts of approximately $1.0 million and $3.6 million in 2021 and 2020, respectively. Charges to students for campus housing and dining services represent separate performance obligations from the delivery of academic instruction and have been treated as separate contracts in the University's financial statements. Revenue from housing and dining contracts is recognized as earned over the related academic term within the fiscal year and is included in auxiliary activities.

Advertising costs are expensed as incurred. Advertising expense was approximately $2.2 million and $2.7 million for the years ended May 31, 2021 and 2020, respectively.

Contributions

Contributions received are recognized as revenue in the period received at their fair values. Unconditional promises to give are recognized at net realizable value when the promise is made. Contributed services are recognized as revenue if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that would typically need to be purchased if not provided by donation. Contributions of art are generally not recorded on the books of the University when received, unless a readily determinable fair value is available at the date of gift. Gifts of long-lived assets are recognized at fair value at the date of gift. The University does not imply a time restriction on such gifts.

Investments

Investments, primarily debt and equity securities and assets held in trust, are carried at fair value. Fair values of securities are based on quoted market prices. Fair values of investments in private limited partnerships and hedge funds are based on net asset value ("NAV") as a practical expedient in estimating fair value. U.S. GAAP provides guidance for estimating the fair value of investments in investment funds that calculate NAV. The net asset values are determined by the fund manager or general partner based on their best estimates using fair value estimation techniques, substantiated, in part, by their audited financial statements and supported by the due diligence of the University's investment management. Real estate held for investment by the University is carried at fair value based upon appraisals. Mineral interests are carried at fair value based upon a valuation approach using cash flows. Short-term investments are carried at cost, which approximates the fair value of such assets. Investments which are received by gift are recorded at fair value at the date of donation and adjusted for any unrealized gains/losses occurring thereafter.

Short-term investments consist principally of cash equivalents and money market funds and are not subject to significant market or credit risks. The remaining longer-term investments are subject to market and credit risks customarily associated with those investments.

Certain restricted gifts, grants, investment income, and other restricted resources are accounted for as revenue with donor restrictions. Upon the lapse of donor-imposed restrictions or expenditures for the intended purpose, these assets are reclassified to net assets without donor restrictions, with expenditures reported as operating expenses or non-operating capital contributions released from restrictions. Contributions received with donor restrictions which are satisfied in the same reporting period are accounted for as described above and are included in net assets released from restrictions and in capital contributions released from restrictions in the accompanying statement of activities.

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Short-term investments consist principally of cash equivalents and money market funds and are not subject to significant market or credit risks. The remaining longer-term investments are subject to market and credit risks customarily associated with those investments.

Interest Rate Swaps

The University accounts for its interest rate swaps at their fair value at each fiscal year end. They are included as liabilities in the statements of financial position as interest rate swaps. Changes in the fair value of the interest rate swaps held by the University are included in the non-operating activities section in the accompanying statement of activities as gain/(loss) on interest rate swaps.

Student Loans

The assets and liabilities of the Federal Perkins Loan Program, Nursing Student Loan Program, and Nurse Faculty Loan Program, which are financed primarily by the federal government and administered by the University, are included with those of the University. The total of the federal government portion of these net assets is shown as refundable government student loans in the accompanying statements of financial position. The University also has loan funds received by means of gifts or grants that are included in net assets with donor restrictions due to donor stipulations that the funds and the income earned must remain in perpetuity for loan purposes.

Income Tax Status

The University is a tax-exempt institution under Section 501(a) of the Internal Revenue Code of 1986 (IRC), as an organization described in Section 501(c)(3) of the IRC. The University has concluded that it does not have any unrecognized tax benefits resulting from current or prior period tax positions. Accordingly, no additional disclosures have been made on the financial statements regarding uncertain tax provisions. As of May 31, 2021, the University’s tax years ended May 31, 2018 through 2021, generally, remain subject to examination.

Fair Value of Financial Instruments

The University has estimated the fair values of its financial instruments using available market information and other valuation methodologies. Accordingly, the estimates presented are not necessarily indicative of the amounts that the University could realize in a current market exchange. Determinations of fair value are based on subjective data and significant judgment relating to timing of payments and collections and the amounts to be realized, and may include audited financial statements and the due diligence of the University’s investment management. Different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts. Other than the implementation of ASC 842, there have been no significant changes in the estimation methodologies used by the University to measure the fair value of its financial instruments. The University believes that the carrying amounts of the various categories of financial instruments approximate fair value.

The University records financial instruments in accordance with the fair value guidance as contained within ASC 820, *Fair Value Measurement*. In accordance with ASC 820, fair value is defined as the price the University would receive from the sale of an asset, or pay to transfer the liability, in a timely transaction with an independent buyer in a principal market. This guidance establishes a three-tier hierarchy to distinguish between various types of inputs used in determining the value of the University’s assets and liabilities. The University’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument and is more fully described in Note F. The inputs are summarized in three levels as outlined below:

Level 1 Inputs - Quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 assets include publicly traded securities and mutual funds. Valuations of these instruments do not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.

Interest Rate Swaps

The University accounts for its interest rate swaps at their fair value at each fiscal year end. They are included as liabilities in the statements of financial position as interest rate swaps. Changes in the fair value of the interest rate swaps held by the University are included in the non-operating activities section in the accompanying statement of activities as gain/(loss) on interest rate swaps.

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The University is a tax-exempt institution under Section 501(a) of the Internal Revenue Code of 1986 (IRC), as an organization described in Section 501(c)(3) of the IRC. The University has concluded that it does not have any unrecognized tax benefits resulting from current or prior period tax positions. Accordingly, no additional disclosures have been made on the financial statements regarding uncertain tax provisions. As of May 31, 2021, the University's tax years ended May 31, 2018 through 2021, generally, remain subject to examination.

Fair Value of Financial Instruments

The University has estimated the fair values of its financial instruments using available market information and other valuation methodologies. Accordingly, the estimates presented are not necessarily indicative of the amounts that the University could realize in a current market exchange. Determinations of fair value are based on subjective data and significant judgment relating to timing of payments and collections and the amounts to be realized, and may include audited financial statements and the due diligence of the University's investment management. Different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts. Other than the implementation of ASC 842, there have been no significant changes in the estimation methodologies used by the University to measure the fair value of its financial instruments. The University believes that the carrying amounts of the various categories of financial instruments approximate fair value.

The University records financial instruments in accordance with the fair value guidance as contained within ASC 820, *Fair Value Measurement*. In accordance with ASC 820, fair value is defined as the price the University would receive from the sale of an asset, or pay to transfer the liability, in a timely transaction with an independent buyer in a principal market. This guidance establishes a three-tier hierarchy to distinguish between various types of inputs used in determining the value of the University's assets and liabilities. The University's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument and is more fully described in Note F. The inputs are summarized in three levels as outlined below:

Level 1 Inputs - Quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 assets include publicly traded securities and mutual funds. Valuations of these instruments do not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.

Level 2 Inputs - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies. Assets in this category generally include non-exchange-traded equity mutual funds, fixed income funds, and interest rate caps. Liabilities in this category include interest rate swaps. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying assumptions.

Level 3 Inputs - Unobservable inputs for the valuation of the asset or liability. Level 3 assets include investments for which there is little, if any, market activity. These inputs require significant management judgment or estimation. Assets in this category generally include real estate; investments held in trust by others; mineral interests; and other similar assets. These financial instruments have inputs that cannot be validated by readily determinable market data and generally involve considerable judgment by management.

Fair values of investments in private limited partnerships and hedge funds may be based on net asset value as a practical expedient in estimating fair value in accordance with ASC 820. Under this standard, investments for which fair value is measured at NAV per share (or its equivalent using the practical expedient) are removed from the fair value hierarchy. The requirements of this standard are reflected in the tables in Note F.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes. Actual results could differ from these estimates and assumptions.

Prior Year Financial Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended May 31, 2020, from which the summarized information was derived.

Recent Accounting Pronouncements

The University adopted ASC 842, *Leases*, effective June 1, 2020. This standard requires lessees to recognize leases on the balance sheet as right-of-use (ROU) assets and lease liabilities based on the value of the discounted future lease payments. In adopting ASC 842, the University elected to use practical expedients, including but not limited to, not reassessing past lease and easement accounting, and not recording assets or liabilities for leases with terms of one year or less.

Upon adoption, the University recognized $19.4 million operating right-of–use assets, net of accumulated amortization and related lease liabilities of $19.9 million and recognized $1.5 million finance right-of-use assets, net of accumulated amortization and related lease liabilities of $1.6 million.

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-13, *Fair Value Measurement (Topic 820)*. This new standard created additional disclosure requirements and changed certain disclosure requirements related to level 3 fair value measurements, which are no longer required, but considered useful and therefore included in Note A and Note F. The University adopted the standard as of June 1, 2020.

NOTE B - BRITE DIVINITY SCHOOL

Brite Divinity School (Brite) is a separately incorporated 501(c)(3) organization with its own Board of Trustees. The assets, liabilities, and activities of Brite are not included in the accompanying financial statements except for investments at fair value totaling approximately $15.4 million and $12.1 million at May 31, 2021 and 2020, respectively, which are included in investments, at fair value, and also as an offsetting liability in funds held in fiduciary capacity, net, in the accompanying statements of financial position. Funds held in fiduciary capacity, net, include a receivable from Brite of approximately $121,000 and $21,000 at May 31, 2021 and 2020, respectively.

Brite pays annual maintenance and administrative fees to the University to cover a portion of these expenses, as a majority of these functions are performed by University personnel. Brite also reimburses the University for expenses directly attributable to its operations. The fees and reimbursements totaled approximately $1.8 million and $1.9 million for the years ended May 31, 2021 and 2020, respectively. The fees are included in other income and the expense reimbursements are included as offsets to operating expenses in the accompanying statement of activities.

NOTE C - LIQUIDITY AND AVAILABILITY

The University's financial assets available for general expenditure within one year as of May 31 are as follows:

	2021	2020
	(in thousands)	
Cash	$ 32,065	$ 16,278
Accounts receivable and accrued income, net	21,193	21,243
Contributions receivable, net due within one year	23,673	22,774
Investments not subject to donor restrictions or board designations	334,530	302,615
Financial assets available at year end for current use	$ 411,461	$ 362,910

The University has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the University invests cash in excess of daily requirements in short-term investments. As of May 31, 2021 and 2020, the University had available revolving lines of credit totaling $100 million for each year, which it could draw upon in the event of an anticipated liquidity need.

Student loan balances and certain other long-term amounts recorded in accounts receivable are not available to meet general expenditures.

In addition to financial assets available to meet general expenditures within one year, the Board of Trustees-approved spending limit for the subsequent year ending May 31, 2022 of $78 million is expected to be released from donor-restricted and board-designated financial assets over the next 12 months.

The University has board-designated endowment investments of $891.6 million and $695.2 million as of May 31, 2021 and 2020, respectively. Although the University does not intend to spend from its board-designated endowment funds other than spending limit amounts appropriated for general expenditure, amounts from its board-designated endowment could be made available at the discretion of the Board of Trustees.

NOTE D - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following unconditional promises to give with donor restrictions at May 31:

	2021	2020
	(in thousands)	
Unconditional promises expected to be collected in:		
Less than one year	$ 23,673	$ 22,774
One to five years	17,032	25,318
More than five years	5,000	5,000
Contributions receivable	45,705	53,092
Less discount	(2,431)	(3,093)
Contributions receivable, net	$ 43,274	$ 49,999

Gross contributions receivable resulting from unconditional promises to give relating to the renovation of the Amon G. Carter Stadium, Ed and Rae Schollmaier Arena (formerly Daniel-Meyer Coliseum), Charlie and Marie Lupton Baseball Stadium, M. J. Neeley School of Business, Football Recruiting Area, Dee J. Kelly Alumni & Visitors Center, School of Music Performance Hall construction project, and Amon G. Carter Stadium Expansion represent approximately $45.7 million and $53.1 million as of May 31, 2021 and 2020, respectively. The net value of those contributions receivable was approximately $43.3 million and $50.0 million, as determined by discounting future cash flows, of which 41.0% is concentrated in eight donors as of May 31, 2021 and 44.4% is concentrated in ten donors as of May 31, 2020. The rates used for calculation of the discount ranged from 0.19% to 3.1% for 2021 and 2020.

NOTE E - INVESTMENTS

The fair values of investments at May 31 are as follows:

	2021	2020
	(in thousands)	
Short-term investments	$ 429,573	$ 364,254
Equities:		
Domestic securities	142,474	79,222
International securities	195,310	142,886
Fixed income:		
Corporate bonds and asset-backed securities	204	40
Alternatives:		
Equity partnerships	852,917	495,470
Debt partnerships	269,790	253,451
Real estate partnerships	134,227	109,220
Hedge funds	156,098	286,331
Real estate	21,040	21,098
Mineral interests	69,900	86,354
Investments held in trust by others	103,296	87,912
Total investments	$ 2,374,829	$ 1,926,238

Short-term investments consist of cash and cash equivalents, such as investments in money market funds, Treasury Bills, and mutual funds.

The amounts reported for the University's investments in hedge funds and limited partnerships are the estimates of the University's alternative investment managers, based on their best estimates using fair value estimation techniques, substantiated, in part, by the investments' audited financial statements and supported by the due diligence of the University's investment management. However, given the inherent limitations in any estimation technique, the values presented herein are not necessarily indicative of the amount that the University could realize in a current transaction. Future events could affect the estimates of fair value and could be material to the financial statements.

Direct investments in real estate and mineral interests are carried at fair value. The University believes that fair value accurately reflects the value of these investments and is a preferable method of accounting for these investments and records the change in fair value in investment returns, net of operating distributions in the statement of activities.

Mineral interests consist primarily of royalty interests in oil, natural gas, and natural gas liquids, which are developed and produced by oil and gas companies independent of the University. The mineral interests are primarily located in Texas, Oklahoma, New Mexico, Louisiana, Arkansas, and Mississippi. The University's valuation process for determining the fair value of producing mineral interests is based upon cash flows. Under the cash flows valuation method, the fair value of mineral interests is determined using a multiple of the average monthly net cash flows from producing royalties for the fiscal year. The resulting fair value determination is reviewed by an independent petroleum engineer in conjunction with management's due diligence process. In addition, non-producing mineral and non-participating royalty interests are valued by an independent petroleum engineer annually based on bonus potential and net mineral acreage retained by the University.

The following table summarizes the fair value measurement of the University's investments in certain entities that calculate net asset value per share as of May 31, 2021:

		Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
		(in millions)			
Investments in:					
Hedge funds	(a)	$ 156	$ 0	(c)	(d)
Limited partnerships	(b)	1,257	696	n/a	n/a

(a) This category includes 7 hedge funds with multiple strategies such as long/short equity, absolute return, multi-strategy, event-driven and global macro. The fair values of the investments in this category have been estimated using net asset value per share of the investments, substantiated in part by the investments' audited financial statements. There are no gates or other limitations imposed upon redemption amounts; however, some hedge fund managers have withdrawal provisions established upon entering their funds which limit an investor's ability to withdraw amounts without a variable charge of up to 5%.

- Two investments, valued at $56.8 million, can be redeemed on a quarterly basis.
- One investment, valued at $36.7 million, can be redeemed on an annual basis.
- One investment, valued at $21.8 million, can be redeemed every two years from the date of issuance.
- One investment, valued at $40.7 million, can be redeemed every three years from the date of issuance.
- As of May 31, 2021, the University was in the process of redeeming two investments totaling $0.2 million.

(b) This category includes private equity limited partnerships that invest primarily in diversified leveraged buyout and venture capital companies, opportunistic distressed debt/equity securities, senior secured mortgages, and secondary investments. This category also includes real asset limited partnerships invested primarily in commercial mortgages and properties located almost exclusively in North America. The fair values of the investments in this category have been estimated using the net asset value of the University's ownership interest in the partners' capital. The net asset values are determined by the fund manager or general partner based upon the latest investee information available, including financial statements and other similar data necessary to the valuation process. Pending capital commitments by the University to these partnerships total approximately $696 million through 2024. Generally, partnership investments cannot be redeemed because the investments are structured as closed-end funds with maturity dates 10 or more years from initial acquisition. All funds in this category can be redeemed in the secondary market at a discount or premium to current fair value depending on the market for each particular fund subject to, in some cases, certain approval rights of the general partners.

(c) Hedge fund redemption frequency varies by fund and may occur the last day of each calendar quarter, annually on December 31, every two years on December 31, or every three years on October 1.

(d) Hedge fund redemption notice varies by fund and may be from 60 to 90 days depending on the fund.

Investments held in trust by others consist primarily of investments in securities and mineral-producing interests. The fair values are presented as follows from information provided by independent trustees as of May 31:

	2021	2020
	(in thousands)	
Milton E. Daniel Trust	$ 71,303	$ 60,543
Charles H. Harris Foundation	10,084	8,606
Charitable remainder trusts, net, at estimated net present value	17,059	14,794
Other estates and trusts	4,850	3,969
Total investments held in trust by others	$ 103,296	$ 87,912

The University has received as contributions various types of split-interest agreements and investments held in trust by others, including charitable gift annuities, pooled income funds, charitable remainder trusts, and perpetual trusts. The assets for charitable remainder trusts and perpetual trusts are neither in the possession nor under the control of the University, but are held and administered by fiscal agents independent of the University. These assets are included in the accompanying financial statements because the University has legally enforceable, irrevocable rights or claims, including those as to income or eventual distribution of the assets. The associated net assets included in pooled income funds and perpetual trusts are recorded in investments and are revalued to fair value at each year end based upon valuations provided by trustees. The associated net assets under charitable remainder trusts and charitable gift annuities are recorded in investments and are revalued to fair value at each year end using standard IRS-required valuation methodologies. The assumed rate of return used was 7.19% at May 31, 2021 and 2020. There were no contributions to split-interest agreements for the year ended May 31, 2021. Split-interest contributions were $0.1 million for the year ended May 31, 2020.

Under the charitable gift annuity arrangements, the University has recorded the assets at fair value and the liabilities to the donors or the donors' beneficiaries at the present value of the estimated future payments to be distributed by the University to such individuals. The amount of the contribution is the difference between the assets and the liability and is recorded as contribution revenue with donor restrictions.

Under the pooled income fund and charitable remainder trust agreements, the University has recorded the contribution with donor restrictions at the present value of the estimated future benefits to be received based on the ultimate disposition of the assets dependent on the donor's intent. Subsequent changes in fair value for charitable remainder trusts are recorded as changes in value in net assets with donor restrictions and are reflected in the statement of activities as investment returns, net of operating distributions.

Under the perpetual trust agreements, the assets are held in perpetuity and recorded in investments in the accompanying statements of financial position. The University has recorded the assets and has recognized contribution revenue with donor restrictions at the fair value of the University's beneficial interest in the trust assets. Income earned on the trust assets is included in investment returns distributed for operations in the accompanying statement of activities. Subsequent changes in the fair value of the beneficial interest in the trust assets are recorded in the statement of activities as investment returns with donor restrictions, net of operating distributions.

The net investment return for the years ended May 31 consists of the following:

	2021	2020
	(in thousands)	
Dividends and interest	$ 45,728	$ 40,895
Mineral income	9,598	8,992
Net realized and unrealized gain (loss)	417,325	(43,862)
Net investment return	$ 472,651	$ 6,025

NOTE F - FAIR VALUE MEASUREMENT

The schedule below classifies certain of the University's assets and liabilities carried at fair value based upon the three-tier hierarchy required by ASC 820 as of May 31, 2021 (in thousands):

		Fair Value Measurements at May 31, 2021 Using			
Description	2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at NAV
Short-term investments	$ 429,573	$ 429,573	$ -	$ -	$ -
Equities	337,784	337,784	-	-	-
Fixed income	204	-	204	-	-
Hedge funds	156,098	-	-	-	156,098
Limited partnerships	1,256,934	-	-	-	1,256,934
Real estate	21,040	-	-	21,040	-
Mineral interests	69,900	-	-	69,900	-
Investments held in trust by others	103,296	-	-	103,296	-
Total investments	2,374,829	767,357	204	194,236	1,413,032
Interest rate swaps	(30,338)	-	(30,338)	-	-
Total	$ 2,344,491	$ 767,357	$ (30,134)	$ 194,236	$ 1,413,032

The schedule below classifies certain of the University's assets and liabilities carried at fair value based upon the three-tier hierarchy required by ASC 820 and the NAV permitted under FASB ASU 2015-07 as of May 31, 2020 (in thousands):

		Fair Value Measurements at May 31, 2020 Using			
Description	2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at NAV
Short-term investments	$ 364,254	$ 364,254	$ -	$ -	$ -
Equities	222,108	222,108	-	-	-
Fixed income	40	-	40	-	-
Hedge funds	286,331	-	-	-	286,331
Limited partnerships	858,141	-	-	-	858,141
Real estate	21,098	-	-	21,098	-
Mineral interests	86,354	-	-	86,354	-
Investments held in trust by others	87,912	-	-	87,912	-
Total investments	1,926,238	586,362	40	195,364	1,144,472
Interest rate swaps	(41,464)	-	(41,464)	-	-
Total	$ 1,884,774	$ 586,362	$ (41,424)	$ 195,364	$ 1,144,472

The schedule below summarizes the activity for the items above, which have been classified as Level 3 investments:

	Real Estate	Mineral Interests	Investments Held in Trust
		(in thousands)	
Ending balance at May 31, 2019	$ 21,167	$ 116,617	$ 86,355
Net gains/(losses)	(69)	(30,263)	1,557
Ending balance at May 31, 2020	21,098	86,354	87,912
Net gains/(losses)	(58)	(16,454)	15,384
Ending balance at May 31, 2021	$ 21,040	$ 69,900	$ 103,296

Unrealized and realized gains and losses on the investments valued using significant unobservable inputs are included, net of investment management fees and related expenses, in investment returns distributed for operations and investment returns, net of operating distributions, in the accompanying statement of activities. Specific valuation techniques are not disclosed because all valuation information is provided by third parties. For the year ended May 31, 2021, net unrealized losses of approximately $1.1 million relate to Level 3 assets still held at May 31, 2021. For the year ended May 31, 2020, net unrealized losses of approximately $28.8 million related to Level 3 assets still held at May 31, 2020.

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment, at cost or fair market value at the date of receipt by gift, are as follows at May 31:

	2021	2020
	(in thousands)	
Land improvements	$ 70,542	$ 62,362
Buildings, renovations, and improvements	1,710,127	1,593,120
Furniture and equipment	199,185	192,729
Library books and film	34,340	34,252
Finance lease	3,029	-
Property and equipment	2,017,223	1,882,463
Less accumulated depreciation	(682,699)	(612,263)
	1,334,524	1,270,200
Land	98,641	95,789
Construction-in-progress	3,285	104,054
Property and equipment, net	$ 1,436,450	$ 1,470,043

Depreciation expense was approximately $75.5 million and $69.5 million for the years ended May 31, 2021 and 2020, respectively.

The University had outstanding commitments for construction and renovation of approximately $2.6 million and $16.7 million at May 31, 2021 and 2020, respectively.

NOTE H - LEASES

The University leases student housing apartments, parking, retail/office space, equestrian facilities, and dedicated ethernet under operating leases expiring at various dates through 2030, which are primarily considered operating right-of-use assets under ASC 842. Variable lease cost includes student housing apartments for which the University collects fees from students for use and office space leases. The lease for student housing apartments represents substantially all of the variable lease liability. In addition, one lease arrangement for student housing apartments is classified as a finance right-of-use asset under ASC 842, this lease expires in 2022.

	2021
	(in thousands)
Lease cost for the year ended May 31:	
Operating lease cost	$ 260
Variable lease cost	6,244
Finance lease cost:	
Amortization of right of use assets	1,515
Interest on lease liabilities	41
Total finance lease cost	1,556
Total lease cost	$ 8,060

	2021 (in thousands)
Supplemental cash flow related to leases:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 6,061
Financing cash flows from finance leases	$ 1,514

	Operating	Finance
Supplemental information related to leases:		
Right of use assets	$ 25,490	$ 3,029
Accumulated amortization	(6,128)	(1,515)
Right of use assets, net	$ 19,362	$ 1,514
Right of use liabilities, current	$ 7,298	$ 1,555
Right of use liabilities, non-current	12,634	-
Right of use liabilities	$ 19,932	$ 1,555
Weighted-average remaining lease term	3.23	1.00
Weighted-average discount rate	1.72%	1.95%

Lease maturity table:	
Year ending May 31,	
2022	$ 8,072
2023	6,666
2024	6,645
2025	108
2026	110
Thereafter	459
	22,060
Less effects of discounting	(573)
Total	$ 21,487

NOTE I - BONDS AND NOTES PAYABLE AND REVOLVING LINE OF CREDIT

The carrying value of bonds and notes payable, net, consisted of the following at May 31:

	2021	2020
	(in thousands)	
2000 Red River Higher Education Variable Rate Demand Revenue Bonds, partially refunded in 2020, due March 1, 2030, bearing interest at variable rates (0.03% at May 31, 2021 and 1.40% at May 31, 2020)	$ 30,000	$ 30,000
2006 Red River Higher Education Variable Rate Demand Revenue Bonds, due March 15, 2035, bearing interest at variable rates (0.04% at May 31, 2021 and 1.80% at May 31, 2020)	80,000	80,000
2013 Red River Higher Education Revenue Bonds, partially advance-refunded in 2020, due in annual payments until the March 15, 2023 call date, bearing interest at a rate of 5%	4,950	7,250
2015A Taxable Senior Notes, due March 15, 2045, bearing interest at 3.97%	50,000	50,000
2016 Red River Higher Education Loan, due in annual payments through March 15, 2027, bearing interest at 2.30%	29,390	33,910
2016A Red River Higher Education Revenue Refunding Bonds, due in annual payments through March 15, 2038, bearing interest at rates between 4% and 5%, net of unamortized premium of $4.3 million and $4.6 million at May 31, 2021 and 2020, respectively	31,859	33,131
2017 Red River Higher Education Revenue Refunding Notes, due in annual payments through March 15, 2026, bearing interest at 2.44%	30,577	30,821
2017A Taxable Senior Notes, due August 11, 2037, bearing interest at 3.61%	100,000	100,000
2019 Taxable Senior Notes, due April 9, 2043, bearing interest at 3.82%	75,000	75,000
2020 Red River Higher Education Revenue Refunding Taxable Bonds, due in annual payments March 15, 2026 through March 15, 2045, bearing interest at rates between 2.164% and 3.397%	309,385	309,385
2020A Taxable Senior Notes, due May 14, 2060, bearing interest at 3.6%	150,000	150,000

	2021	2020
	(in thousands)	
Bonds and notes payable	$ 891,161	$ 899,497
Unamortized debt issuance costs	(5,353)	(5,761)
Bonds and notes payable, net	$ 885,808	$ 893,736

The fair value of bonds and notes payable was approximately $958 million and $973 million for the years ended May 31, 2021 and 2020, respectively, and were valued at the present value of future payments discounted at the prevailing interest rates for comparable debt instruments as of their valuation dates. All bond and note issuances are unsecured.

The 2000 and 2006 bonds are variable rate bonds in a weekly mode and can be tendered by holders upon demand. Remarketing agents selected by the University determine the interest rates and market the bonds at rates that will price the bonds at a market value of approximately 100% of the principal balance outstanding, plus accrued interest. The University has $110 million of bank-supported standby bond purchase agreements (SBPA). In the event that the remarketing agent is unable to market the bonds at any given time, the bonds could become callable and the SBPA bank would be required to pay the balance at that time. The SBPAs mature in May 2025.

On March 3, 2005, the University entered into, at no cost, a 29.1-year $80 million notional amount interest rate swap, in which the University agrees to pay an annual fixed rate of 4.34%. The University entered into this rate swap to minimize the interest rate risk related to the 2006 bonds. The fair value of the swap represented a liability to the University of approximately $30.3 million and $41.5 million at May 31, 2021 and 2020, respectively. Periodic settlements of the swap are recorded as a component of interest expense.

On August 11, 2017, the University entered into an agreement with a private lender to issue $100 million of Taxable Senior Notes at a fixed rate of 3.61% and due on August 11, 2037. Identified functionally as Series 2017A, the proceeds from the Notes were used to renovate and expand the Neeley School of Business facilities and construct a new School of Music Performance Hall. The Neeley School of Business renovation is a $75 million capital project for which approximately $57.4 million in binding written pledges, non-binding agreements, and donor gifts had been committed through May 31, 2021 and 2020. The School of Music Performance Hall is a $53 million capital project for which approximately $12.3 million and $12.0 million in binding written pledges, non-binding agreements, and donor gifts had been committed through May 31, 2021 and 2020, respectively.

On April 9, 2019, the University entered into an agreement with a private lender to issue $75 million of Taxable Senior Notes at a fixed rate of 3.82% and due on April 9, 2043. Identified functionally as Series 2019, the proceeds of the Notes are being used to fund the construction of The Harrison administration building, a $57 million capital project, and to expand the east side of Amon G. Carter Stadium, a $113 million capital project. Approximately $58.3 million and $53.1 million in binding written pledges, non-binding agreements, and donor gifts had been committed toward the stadium expansion through May 31, 2021 and 2020, respectively.

On January 30, 2020 the University entered into an agreement to issue $309 million in Higher Education Revenue Refunding and Improvement Taxable Bonds at fixed rates ranging from 2.16% and of 3.40%, based on maturities ranging from March 15, 2026 to March 15, 2045. Identified functionally as Series 2020, the proceeds refinanced in part or all of Series 2000, 2010A, 2011, 2013A, and issued $75 million in new funds to construct projects including two dormitories, a new Fine Arts building, and parking. Additionally, proceeds were placed in escrow to refund a portion the Series 2013 bonds which are callable in March 2023. The unrefunded portion of Series 2013 fully amortizes by March 2023, coinciding with the Series 2013 call date.

On May 15, 2020, the University entered into an agreement with a private lender to issue $150 million of Taxable Senior Notes at a fixed rate of 3.60% and due on May 14, 2060. Identified functionally as Series 2020A, the proceeds from the Notes are being held in reserve to manage liquidity during the worldwide COVID-19 pandemic. As of May 31, 2021, no proceeds have been spent.

ASC 815, *Derivatives and Hedging*, states that not-for-profit organizations are not permitted special hedge accounting for derivatives used to hedge forecasted transactions. Accordingly, the interest rate swaps have not been accounted for by the University as a hedge. Changes in the fair value of the swaps are included as non-operating activities in the statement of activities as loss on interest rate swaps.

Aggregate scheduled maturities of bonds and notes payable are as follows (in thousands):

Year Ended May 31	
2022	$ 8,365
2023	8,641
2024	6,272
2025	6,454
2026	37,790
Thereafter	819,315
Total bonds and notes payable	886,837
Unamortized premium	4,324
Unamortized bond issuance costs	(5,353)
Bonds and notes payable, net	$ 885,808

As of May 31, 2021, and 2020, the University had available revolving lines of credit totaling $100 million, supporting operations, with staggered maturities through December 2022. No borrowings were outstanding under any line of credit at May 31, 2021 and 2020. Borrowings under the revolving lines of credit would be unsecured and bear interest at rates which fluctuate with LIBOR or the federal funds borrowing rate (0.08% and 0.18% at May 31, 2021 and May 31, 2020, respectively). The University has a $110 million standby bond purchase agreement, maturing May 26, 2025, to provide liquidity support for the Series 2000 and Series 2006 variable rate demand bonds.

Cash payments of interest totaled approximately $29.6 million and $25.2 million for the years ended May 31, 2021 and 2020, respectively. Interest capitalized totaled approximately $4.8 million and $8.6 million for the years ended May 31, 2021 and 2020, respectively. Interest expense was approximately $24.8 million and $18.4 million for the years ended May 31, 2021 and 2020, respectively.

NOTE J - RETIREMENT BENEFITS

All full-time University faculty and staff hired on or after June 1, 2020 may participate in retirement plans administered by the Teachers Insurance and Annuity Association/College Retirement Equities Fund or Pension Fund of the Christian Church the first month after hire date with a 5-year vesting period. Full-time University faculty and staff hired before June 1, 2020 with less than two years of service were able to begin participating as of June 1, 2020 with immediate vesting The University's contributions to the plans were 8% of the participant's salary base. Contributions to the plans by the University were approximately $16.2 million and $19.2 million for the years ended May 31, 2021 and 2020, respectively.

In addition to retirement contributions, the University provides certain health care benefits for retired employees. Normal retirement age is 65. For employees hired prior to January 1, 2005, early retirement is possible, beginning at age 55, with a minimum of five years of service, provided that a retiree's years of service plus age equal or exceed 75 at the date of retirement. For employees hired after December 31, 2004, early retirement is possible, beginning at age 55, with a minimum of 10 years of service, provided that a retiree's years of service plus age equal or exceed 75 at the date of retirement.

The University provides Medicare eligible retirees with a monthly benefit amount toward the purchase of individual medical and prescription drug coverage through a private Medicare exchange. Insured dental benefits are offered to all eligible retirees. Self-insured medical and prescription drug benefits are provided by the plan for pre-Medicare eligible retirees and the University partially subsidizes the premium on a current basis. The cost for the plan for participants who are not Medicare eligible is projected to increase in the future at the health care cost trend rates disclosed below.

Effective January 1, 2021, the University modified its plan so that only employees who attain age 45 on or before December 31, 2020, are eligible for the health care benefits currently available to retired employees. Current employees under the age of 45 on January 1, 2021, and any new hires after January 1, 2021, will be eligible for the defined contribution retiree health savings program (RHSP). All eligible employees will be automatically enrolled in the RHSP the month following their 40^{th} birthday. Employees in the RHSP will vest after 10 years of service.

The following tables set forth information regarding postretirement benefits attributable to employees of the University at May 31 (determined using a measurement date of May 31):

<u>Change in benefit obligation:</u>

	2021	2020
	(in thousands)	
Accumulated postretirement benefit obligation at beginning of year	$ 67,406	$ 67,641
Service cost	2,316	2,299
Interest cost	1,814	2,307
Actuarial loss/(gain)	1,278	(1,977)
Plan participants' contributions	799	630
Benefit payments	(4,562)	(3,494)
Accumulated postretirement benefit obligation at end of year	$ 69,051	$ 67,406

Postretirement benefit changes reported as non-operating activities:

	Projected 2022 (unaudited)	2021	2020
		(in thousands)	
Recognized actuarial loss included in net periodic benefit cost	$ 2,297	$ 2,468	$ 2,848
Unrecognized actuarial gain adjustment	-	(1,190)	(4,825)
Actuarial loss/(gain)	$ 2,297	$ 1,278	$ (1,977)

Weighted-average assumptions used in calculating amounts relating to postretirement benefit obligations:

	2021	2020
Discount rate used	3.00%	2.75%
Health care cost trend rates:		
Initial post-65 trend rate	N/A	N/A
Ultimate post-65 trend rate	N/A	N/A
Years to decrease to ultimate trend rate	N/A	N/A
Initial pre-65 trend rate	6.00%	6.50%
Ultimate pre-65 trend rate	5.00%	5.00%
Years to decrease to ultimate trend rate	2	3
Initial dental trend rate	5.00%	5.00%
Ultimate dental trend rate	5.00%	5.00%
Years to decrease to ultimate trend rate	-	-

Effect of a 1-percentage point increase in health care cost trend rate on:

	2021	2020
	(in thousands)	
Accumulated postretirement benefit obligation as of May 31	$ 2,336	$ 2,346
Service cost plus interest cost for year beginning June 1	253	258

Effect of a 1-percentage point decrease in health care cost trend rate on:

	2021	2020
	(in thousands)	
Accumulated postretirement benefit obligation as of May 31	$ (1,893)	$ (1,880)
Service cost plus interest cost for year beginning June 1	(198)	(200)

Postretirement benefit changes reported as non-operating activities:

	Projected 2022 (unaudited)	2021	2020
		(in thousands)	
Recognized actuarial loss included in net periodic benefit cost	$ 2,297	$ 2,468	$ 2,848
Unrecognized actuarial gain adjustment	-	(1,190)	(4,825)
Actuarial loss/(gain)	$ 2,297	$ 1,278	$ (1,977)

Weighted-average assumptions used in calculating amounts relating to postretirement benefit obligations:

	2021	2020
Discount rate used	3.00%	2.75%
Health care cost trend rates:		
Initial post-65 trend rate	N/A	N/A
Ultimate post-65 trend rate	N/A	N/A
Years to decrease to ultimate trend rate	N/A	N/A
Initial pre-65 trend rate	6.00%	6.50%
Ultimate pre-65 trend rate	5.00%	5.00%
Years to decrease to ultimate trend rate	2	3
Initial dental trend rate	5.00%	5.00%
Ultimate dental trend rate	5.00%	5.00%
Years to decrease to ultimate trend rate	-	-

Effect of a 1-percentage point increase in health care cost trend rate on:

	2021	2020
	(in thousands)	
Accumulated postretirement benefit obligation as of May 31	$ 2,336	$ 2,346
Service cost plus interest cost for year beginning June 1	253	258

Effect of a 1-percentage point decrease in health care cost trend rate on:

	2021	2020
	(in thousands)	
Accumulated postretirement benefit obligation as of May 31	$ (1,893)	$ (1,880)
Service cost plus interest cost for year beginning June 1	(198)	(200)

Expected postretirement benefit payments, net of expected plan participants' contributions (in thousands):

2022	$	3,058
2023		3,123
2024		3,235
2025		3,302
2026		3,376
Years 2027 - 2031		18,232

The University expects to contribute $3.06 million to the plan during the year ended May 31, 2022.

NOTE L - NET ASSETS

At May 31, net assets are categorized by purpose as follows:

	Without Donor Restrictions	With Donor Restrictions	2021	2020
	(in thousands)			
Internally designated for specific programs and net investment in plant	$ 762,075	$ -	$ 762,075	$ 738,264
Restricted by donor for plant	-	2,346	2,346	4,759
Restricted by donor for scholarships and programs	-	32,611	32,611	28,353
Endowment funds	970,975	1,030,862	2,001,837	1,584,160
Student loan funds	-	911	911	893
Total net assets	$ 1,733,050	$ 1,066,730	$ 2,799,780	$ 2,356,429

Net assets with donor restrictions includes balances restricted by donors and the income from such assets which is either restricted until appropriated for expenditure or unrestricted based on donor stipulations. This category also includes balances restricted by donors subject to certain time or purpose limitations.

NOTE M - ENDOWMENT

The University's endowment consists of individual endowment funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The University interprets the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) enacted in the State of Texas as allowing the University, absent explicit donor stipulations to the contrary as stated in the gift instrument, to appropriate as much of a donor-restricted endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. As a result of this interpretation, the University classifies as perpetual endowments (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as donor-restricted net assets only until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the University and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the University; and (7) the investment policies of the University.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of donor-restricted contributions and continued appropriation for certain programs that were deemed prudent by the University. There were no deficiencies of this nature as of May 31, 2021. Deficiencies of this nature existed in various donor-restricted endowment funds, which together had an original value of $41.9 million and a fair value of $40.6 million with a deficiency of approximately $1.3 million as of May 31, 2020. These deficiencies are included in investment returns, net of operating distributions in the statement of activities and reported in net assets with donor restrictions in the statements of financial position.

Endowment Net Assets

Endowment net assets consist of the following at May 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
		(in thousands)	
Donor-restricted endowment funds	$ -	$ 1,030,862	$ 1,030,862
Board-designated endowment funds	970,975	-	970,975
Total endowment net assets	$ 970,975	$ 1,030,862	$ 2,001,837

Endowment net assets consist of the following at May 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
		(in thousands)	
Donor-restricted endowment funds	$ -	$ 793,650	$ 793,650
Board-designated endowment funds	790,510	-	790,510
Total endowment net assets	$ 790,510	$ 793,650	$ 1,584,160

Changes in endowment net assets for the years ended May 31, 2021 and 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
		(in thousands)	
Endowment net assets at May 31, 2019	$ 831,203	$ 789,462	$ 1,620,665
Contributions	134	19,281	19,415
Total investment return	(1,353)	12,986	11,633
Endowment spending	(42,528)	(28,079)	(70,607)
Transfers to create designated funds	3,054	-	3,054
Endowment net assets at May 31, 2020	790,510	793,650	1,584,160
Contributions	1	16,060	16,061
Total investment return	219,918	251,077	470,995
Endowment spending	(43,458)	(29,925)	(73,383)
Transfers to create designated funds	4,004	-	4,004
Endowment net assets at May 31, 2021	$ 970,975	$ 1,030,862	$ 2,001,837

NOTE N - EXPENSES BY NATURAL CLASSIFICATION

The University categorizes operating expenses according to functional classifications in its statement of activities. The natural classifications of University operating expenses according to major budget categories are presented below. Interest expense on external debt is allocated to the functional categories, which have benefitted from the proceeds of the external debt. Directly attributable depreciation expense is reported in each functional category based on usage of assets. All expenses associated with utilities and operation and maintenance of facilities are allocated to the functional classifications based on square footage occupancy.

Operating expenses by natural classification at May 31, 2021:

	Compensation							
	Faculty	Exempt Staff	Non exempt and Other Wages	Benefits	Utilities	Supplies Services and Other	Depreciation	2021 Total
				(in thousands)				
Instruction	$ 95,444	$ 9,597	$ 12,810	$ 39,282	$ 2,338	$ 31,311	$ 17,393	$ 208,175
Research	-	2,753	2,360	1,677	20	2,904	121	9,835
Academic support	338	15,889	6,377	7,432	429	15,321	8,512	54,298
Student services	-	40,477	8,123	17,785	2,273	43,446	24,747	136,851
Institutional support	248	19,446	4,873	8,386	473	16,519	5,205	55,150
Auxiliary activities	365	3,850	7,731	3,820	2,939	38,177	18,708	75,590
Fund-raising	-	6,905	851	2,969	12	1,280	778	12,795
Total operating expenses	$ 96,395	$ 98,917	$ 43,125	$ 81,351	$ 8,484	$ 148,958	$ 75,464	$ 552,694

Operating expenses by natural classification at May 31, 2020:

	Compensation							
	Faculty	Exempt Staff	Non exempt and Other Wages	Benefits	Utilities	Supplies Services and Other	Depreciation	2020 Total
				(in thousands)				
Instruction	$ 91,351	$ 10,376	$ 14,055	$ 39,143	$ 2,321	$ 36,103	$ 15,453	$ 208,802
Research	-	2,356	1,480	1,128	21	2,280	112	7,377
Academic support	303	16,623	5,576	7,931	572	20,597	8,664	60,266
Student services	699	40,629	9,131	18,392	2,296	51,485	23,262	145,894
Institutional support	161	19,213	5,303	8,283	315	15,140	4,194	52,609
Auxiliary activities	474	3,756	8,394	4,012	3,008	36,755	17,067	73,466
Fund-raising	-	7,140	928	3,072	12	3,308	799	15,259
Total operating expenses	$ 92,988	$ 100,093	$ 44,867	$ 81,961	$ 8,545	$ 165,668	$ 69,551	$ 563,673

NOTE O - CONTINGENCIES

During the normal course of business, the University is involved in various litigation and disputes. The University does not believe that the ultimate resolution of any of these matters will have a material impact on the financial position, results of operations or cash flows of the University.

NOTE P - IMPACT OF COVID-19 PANDEMIC

As a result of the COVID-19 pandemic, in March 2020, the University asked students not to return to campus after spring break and converted the remainder of the spring 2020 semester to virtual learning. Students living on campus in residence halls received credits for their unused housing through the end of the semester, resulting in lost revenue of $11 million, which would have been included in Auxiliary enterprises, net on the Statement of Activities for the fiscal year ending May 31, 2020.

During Fall 2020 additional financial aid assistance was provided for students in need and students whose courses were designated online by the University. This resulted in $29 million of additional financial aid which is included in the Net Tuition and Fees on the Statement of Activities for the fiscal year ending May 31, 2021.

NOTE Q - SUBSEQUENT EVENTS

The University has evaluated events through September 23, 2021, the date the financial statements were available to be issued, and has determined there are no material subsequent events or transactions that would require additional disclosure in the University's financial statements.


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TEXAS CHRISTIAN UNIVERSITY

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2020-2021

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Senior Assistant Vice Chancellor for Finance

Office of the Vice Chancellor for
Finance and Administration

TCU Box 297041

Fort Worth, Texas 76129

817.257.7815 phone

817.257.7750 fax